IASB® meeting

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Project	**Business Combinations under Common Control**
Topic	**User information needs**
Contacts	**Zicheng Wang** (zwang@ifrs.org) **Richard Brown** (rbrown@ifrs.org)

Introduction and purpose

1. This agenda paper analyses the composition and information needs of users of the receiving entity's financial statements (users) in a business combination under common control (BCUCC) compared to a business combination covered by IFRS 3 *Business Combinations* (IFRS 3 BC). This paper considers user information needs as part of reaching overall decisions on selecting the measurement method. Even if the user information needs for all BCUCCs are similar to IFRS 3 BCs, the acquisition method would not necessarily apply to all BCUCCs. Deciding which measurement method to apply will involve considering all factors collectively including, for example, the cost-benefit trade-off (Agenda Paper 23F).

2. This paper does not cover every aspect of useful financial information explained in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. For example:

   (a) paragraphs 10–14 of Agenda Paper 23H analyse comparability, an enhancing qualitative characteristic of useful financial information (explained in paragraphs 2.24–2.29 of the *Conceptual Framework*); and

   (b) Agenda Paper 23G analyses structuring opportunities, which could reduce the relevance and comparability of information reported about a BCUCC and could result in the reported information not faithfully representing the substance of a BCUCC.

3. This paper is based on Agenda Paper 23C to the June 2022 meeting of the International Accounting Standards Board (IASB) and has been updated to:

   (a) reflect feedback from IASB members in the IASB's June 2022 meeting;

   (b) remove references to the two-step approach suggested in the IASB's June 2022 meeting (see paragraphs 10–13 of Agenda Paper 23A);

   (c) cross-reference to other agenda papers which were not included at the IASB's June 2022 meeting.

4. As noted in paragraph 15 of Agenda Paper 23A, this paper is a supporting paper included for reference—it does not contain questions for the IASB. IASB members can raise any particular questions or comments on our analysis in this paper when discussing Agenda Papers 23B and 23C or when answering question (c) on page 8 of Agenda Paper 23A.

Structure of this paper

5. The paper is structured as follows:

   (a) background (paragraphs 6–11);

   (b) staff analysis (paragraphs 12–75);

   (c) Appendix A—Extracts from the Conceptual Framework;

   (d) Appendix B—Extracts from the Basis for Conclusions on IFRS 3; and

   (e) Appendix C—Scenarios discussed with users.

Background

6. As Agenda Paper 23A explains, in developing its preliminary views set out in the Discussion Paper *Business Combinations under Common Control* (Discussion Paper), the IASB considered the composition and information needs of users and compared their composition and information needs with users in an IFRS 3 BC.

7. The IASB separately considered BCUCCs that affect non-controlling shareholders of the receiving entity (NCS) and BCUCCs that do not affect NCS.

8. For BCUCCs that affect NCS, the IASB concluded that the composition and common information needs of users are similar to the composition and common information needs of users in an IFRS 3 BC.

9. For BCUCCs that do not affect NCS, the IASB considered, but did not conclude separately on, the similarity of the composition and common information needs of users to that of users in an IFRS 3 BC. The IASB observed that for such BCUCCs:

   (a) the receiving entity's only existing shareholder is the controlling party, which does not need to rely on the receiving entity's general purpose financial statements to meet its information needs because it controls the receiving entity; and

   (b) a book-value method would provide useful information to potential shareholders, lenders and other creditors.

10. Respondents were not specifically asked to comment on the IASB's conclusions on the similarity of the composition and common information needs of users to that of users in an IFRS 3 BC. However, because the IASB specifically considered the composition and common information needs of users,

many respondents provided feedback which is included in the appropriate sections of this paper. For full details see Agenda Paper 23B of the IASB's December 2021 meeting.

11. The feedback in this paper focuses on feedback from users. Feedback from other respondents has also been included where applicable.

Staff Analysis

12. We first considered the information needs of different groups of users separately, including:

    (a) existing investors:

        (i) the controlling party (paragraphs 17–23); and

        (ii) NCS (paragraphs 24–47);

    (b) potential investors (paragraphs 48–56); and

    (c) lenders and other creditors (paragraphs 57–67).

13. Paragraph 1.8 of the Conceptual Framework says:

> Individual primary users have different, and possibly conflicting, information needs and desires. The [IASB], in developing Standards, will seek to provide the information set that will meet the needs of the maximum number of primary users…

14. Accordingly, we then considered common information needs of the different user groups (paragraphs 68–74) and whether the acquisition method or a book-value method better meets those common information needs.

15. Paragraph 75 summarises our initial views.

Existing investors

16. As paragraph 1.25 of the Discussion Paper notes, existing shareholders of a receiving entity comprise the controlling party and any NCS. The *Conceptual Framework* refers to a reporting entity's 'existing investors'. The *Conceptual Framework* does not refer to the controlling party and NCS but says general purpose financial reports are directed to the primary users who cannot require reporting entities to provide information directly to them and must rely on those reports for much of the financial information they need (see paragraph 1.5 of the *Conceptual Framework* reproduced in Appendix A to this paper). In the context of a BCUCC, the information needs of the controlling party may differ from NCS. Therefore, consistent with the Discussion Paper, we have separately analysed the information needs of these two user groups.

Controlling Party

Observations/conclusions in the Discussion Paper

17. Paragraph 1.25 of the Discussion Paper says:

> …because the controlling party controls the receiving [entity], it can obtain the information it needs from the receiving [entity]. One example of such information is information needed to enable the controlling party to prepare its own consolidated financial statements. Another example is information obtained by the controlling party when it exercises its power to direct the activities of the receiving [entity], such as when the controlling party directs the receiving [entity] to undertake a [BCUCC]. In that case, the controlling party would already have information about the combination without using the receiving [entity's] general purpose financial statements. Hence, irrespective of whether the controlling party reviews and analyses those financial statements, that party does not need to rely on those statements for information about the combination.

18. Paragraph 1.27 of the Discussion Paper says:

> Accordingly, this project does not seek to address the controlling party's information needs–nor the information needs of users of the controlling party's financial statements–although the project might result in the receiving [entity] providing information that is useful to those parties…

Feedback

19. Some respondents (who all said a book-value method should be applied to all BCUCCs) commented on the controlling party's information needs. In particular:

    (a) a few respondents said the controlling party is a primary user and therefore its information needs should also be considered;

    (b) a few respondents said information provided by a book-value method would meet the controlling party's needs better than information provided by the acquisition method; and

    (c) a few respondents—all from China—said in their jurisdiction, in most circumstances, the controlling party relies on the receiving entity's general purpose financial statements because the information it obtains from other sources may be neither more sufficient nor timelier than the information obtained by NCS[1].

Analysis

20. We acknowledge the controlling party's information needs may differ from NCS' information needs because the controlling party:

[1] We understand that regulation in some jurisdictions may prohibit the controlling party from receiving specific information before that information is also made available to NCS.

(a) controlled the transferred business before the BCUCC and may have directed the transaction (see Agenda Paper 23B) so might not need fair value information to evaluate the business combination and its effects on the receiving entity; and

(b) may need book-value information to prepare its consolidated financial statements.

21. However, as paragraph 1.5 of the *Conceptual Framework* (see Appendix A) explains, the receiving entity's general purpose financial statements should be directed to existing and potential investors, lenders and other creditors who cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. As paragraph 1.25 of the Discussion Paper (see paragraph 17) explains, we think the controlling party can obtain the information it needs from the receiving entity and therefore, even if the controlling party chooses to use the receiving entity's general purpose financial statements, it does not need to rely on the receiving entity's general purpose financial statements. Therefore, we continue to agree with the IASB's conclusion in developing the Discussion Paper that the project should not seek to address the controlling party's information needs.

22. Whilst regulations in some jurisdictions may prevent the controlling party from obtaining specific information which NCS do not receive, or before NCS receive that information (see paragraph 19(c)), the controlling party could receive the information it needs by directing the receiving entity to disclose that information to all shareholders at the same time.

Staff initial view

23. As paragraph 21 explains, we think the controlling party does not need to rely on the receiving entity's general purpose financial statements so the project should not address the controlling party's information needs.

NCS

Observations/conclusions in the Discussion Paper

24. The Discussion Paper did not comment on the information needs of NCS in isolation. However, in developing the preliminary view that, in principle, the acquisition method should be applied to BCUCCs that affect NCS, paragraph 2.22 of the Discussion Paper says:

> Therefore, because both the combination itself is similar to a [IFRS 3 BC] …and the composition of users of the receiving [entity's] financial statements is similar in both cases…, the common information needs of those users in such combinations are also similar.

Feedback

25. Almost all users we conducted outreach with were asked about specific scenarios rather than the underlying principle (see Appendix C for the scenarios and paragraphs 10–11 of Agenda Paper 23D of the IASB's December 2021 meeting for more details).

26. Almost all users—except users from China—agreed the acquisition method should be applied to scenario 1, a BCUCC which affects NCS of a receiving entity with shares traded in a public market—that is, the outcome of applying the IASB's preliminary views. Almost all users from China said a book-value method should be applied to all BCUCCs, including scenario 1.

27. Users who agreed with the acquisition method being applied to scenario 1 provided the following reasons:

    (a) from NCS' perspective, there has been an acquisition and NCS need the same information regardless of whether the transaction is a BCUCC or an IFRS 3 BC (many of these users);

    (b) applying the acquisition method would not protect NCS from disadvantageous pricing but would provide transparency in measuring subsequent performance and may deter disadvantageous pricing (some of these users);

    (c) although applying the acquisition method would be more costly, by raising external capital the receiving entity has accountability to NCS to provide such information (one user representative group); and

    (d) information provided by the acquisition method would be useful to assess stewardship and calculate return on invested capital—purchase price allocation adjustments can be reversed to derive book-value information for trend analysis and to calculate the return on capital employed (one user).

28. Users who said a book-value method should be applied to all BCUCCs provided the following main reasons:[2]

    (a) a book-value method is the prevailing practice in their jurisdiction and provides useful information, for example, for trend analysis comparing information over time (almost all of these users);

    (b) capital markets regulations in China require listed entities to provide shareholders fair value information and therefore users in that jurisdiction, including NCS, do not need to rely on general purpose financial statements to meet their information needs (some of these users); and

    (c) the acquisition method would not provide the most useful information because fair values may be unreliable (a few of these users).

29. A few respondents (who all said a book-value method should be applied to all BCUCCs) said if NCS need fair value information, they need it only at the transaction date and this could be disclosed in the notes to the financial statements instead of requiring the use of the acquisition method.

[2] Paragraphs 15–17 of Agenda Paper 23D of the IASB's December 2021 meeting list other less-frequently cited reasons.

30. One national standard-setter said not all NCS have the same information needs—for example, employees who are also NCS may have greater access to the receiving entity's financial information.

31. A few preparers said applying the acquisition method could result in the receiving entity reporting the acquired assets and liabilities at values different from the controlling party's reporting.

Analysis

32. Feedback showed a regional trend with almost all users from China (where a book-value method is required) preferring a book-value method for all BCUCCs and almost all users from other jurisdictions (where practice may be diverse) preferring the acquisition method for scenario 1.

33. As paragraph BC25 of the Basis for Conclusions on IFRS 3 (see Appendix B) explains, the acquisition method:

    (a) enables investors to better assess the initial investments made and the subsequent performance of those investments and compare them with the performance of other entities; and

    (b) by initially recognising almost all of the assets acquired and liabilities assumed at their fair values, provides more information about the market's expectation of the value of the future cash flows associated with those assets and liabilities, which enhances the relevance of that information.

34. As paragraphs BC37–BC38 of the Basis for Conclusions on IFRS 3 (see Appendix B) explain, the information provided by the pooling method (a form of book-value method):

    (a) about the cash generating abilities of the acquired assets and assumed liabilities is less useful than that provided by the acquisition method because the pooling method records the acquired assets and assumed liabilities at their carrying amounts rather than at their fair values;

    (b) is less relevant than information provided by the acquisition method because it has less predictive value and confirmatory value;

    (c) is less complete than information provided by the acquisition method because it does not reflect assets acquired or liabilities assumed that were not included in the pre-combination financial statements of the combining entities; and

    (d) provides a less faithful representation of the combined entity's performance in periods after the combination than information provided by the acquisition method (for example, by recording assets and liabilities at the carrying amount of predecessor entities, post-combination revenues may be overstated—or expenses understated—as the result of embedded gains that were generated but not recognised by predecessor entities).

35. The following paragraphs analyse feedback from respondents who disagreed with applying the acquisition method:

(a) prevailing practice (paragraph 36);

(b) trend analysis (paragraphs 37–39);

(c) access to information (paragraphs 40–42);

(d) reliability of fair value information (paragraph 43);

(e) disclosing fair value information instead (paragraph 44); and

(f) other entities reporting different values (paragraphs 45–46).

Prevailing practice

36. As noted in paragraph 28(a), almost all users who said a book-value method should apply to all BCUCCs said a book-value method is the prevailing practice in their jurisdiction. In developing its preliminary views and considering users' information needs, the IASB considered pronouncements by other standard-setting bodies and prevailing practice across jurisdictions. Feedback has not highlighted any evidence the IASB had not previously considered in this respect.

Trend analysis

37. We agree with respondents that the information provided by a book-value method could have predictive value—in particular, it could provide trend information because the assets and liabilities received might be measured on the same basis before and after the BCUCC.[3] In such cases, it would be possible to provide pre-combination information about the transferred business which would give users a track record of information to predict future years—for example, revenue information about the current and previous periods could be used to predict revenues in future periods.[4]

38. Paragraph B64(q) of IFRS 3 requires an entity to disclose revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date had been as at the beginning of the annual reporting period.[5] This disclosure could provide limited trend information (only for the current reporting period, and only for revenue and profit or loss). Further, information provided by the

[3] The IASB has not yet deliberated which book values the receiving entity should use to measure the assets and liabilities received when applying a book-value method. The IASB's preliminary view in the Discussion Paper was to use the transferred business's book values. Agenda Paper 23B of the IASB's January 2022 meeting explains respondents' feedback.

[4] The IASB has not yet deliberated whether pre-combination information about the transferred business should be provided when applying a book-value method. The IASB's preliminary views in the Discussion Paper were to not restate pre-combination information in the primary financial statements and not require, but not prohibit, disclosure in the notes to the financial statements. Agenda Paper 23C of the IASB's January 2022 meeting explains respondents' feedback.

[5] The IASB has not yet deliberated disclosure requirements for BCUCCs. The IASB's preliminary views in the Discussion Paper were to require IFRS 3's disclosure requirements (including any requirements resulting from the IASB's Goodwill and Impairment project) for BCUCCs to which the acquisition method applies and not require paragraph B64(q) of IFRS 3 for BCUCCs to which a book-value method applies. Agenda Paper 23D of the IASB's January 2022 meeting explains respondents' feedback.

acquisition method reflects how market participants would price the assets and liabilities of the transferred business. As paragraph 6.32 of the Conceptual Framework (see Appendix A) explains, fair value measurement may provide information with predictive value because fair value reflects market participants' current expectation about the amount, timing and uncertainty of future cash flows. The Basis for Conclusions on IFRS 3 say the information provided by a book-value method has less predictive value than the information provided by the acquisition method (see paragraph 34(b)).

39. Consequently, we think both methods can provide information with predictive value—a book-value method could enable trend analysis and the acquisition method reflects market participants' expectations.

Access to information

40. We understand capital markets regulations in China require listed entities to provide fair value information[6] to all shareholders (see paragraph 28(b)) and therefore users in that jurisdiction, including NCS, might not need to rely on general purpose financial statements to meet some of their information needs. However:

(a) similar regulations do not apply in all jurisdictions and therefore NCS in other jurisdictions might not have access to fair value information outside the general purpose financial statements; and

(b) paragraph 2.6 of the Co*nceptual Framework* (see Appendix A) says information can be relevant even if users are already aware of it from other sources.

41. We also acknowledge some types of NCS (for example, employees that are also NCS) may have greater access to information and therefore might not need to rely on the financial statements. However, not all NCS will have access to this information.

42. Whilst the points discussed in paragraphs 40–41 do not change our view on NCS' information needs for the reasons discussed in those paragraphs, Agenda Paper 23C analyses whether a book-value method should apply to BCUCCs for which NCS might not need to rely on the financial statements to meet their information needs—for example, if NCS are related parties of the receiving entity.

Reliability of fair value information

43. As paragraph 28(c) notes, a few users said the fair value information provided by the acquisition method may be 'unreliable'. The *Conceptual Framework* uses the term 'faithful representation' instead of the term 'reliability'.[7] In developing IFRS 3, the IASB considered feedback from some proponents of the pooling method (a form of book-value method) who said the information it provides would be a

[6] We have not evaluated whether the fair value information required in any particular jurisdiction would be equivalent to the information provided by the acquisition method.

[7] See paragraph BC2.21 of the Basis for Conclusions on the *Conceptual Framework*.

more faithful representation than the information provided by the acquisition method. As paragraph 34(d) notes, the IASB concluded that the pooling method would provide a less faithful representation than the acquisition method.

Disclosing fair value information instead of applying the acquisition method

44. A few respondents suggested requiring a receiving entity to disclose fair value information at the transaction date instead of applying the acquisition method. Almost all users—except users from China—supported the use of the acquisition method in scenario 1 (see paragraph 26) which provides fair value information at the transaction date and uses that fair value information as the basis for subsequent measurement. We think if NCS need fair value information about a BCUCC, their information needs will be no different to the information needs of investors in an IFRS 3 BC, for which IFRS 3 requires the acquisition method.

Other entities reporting different values

45. We agree that the receiving entity may report the acquired assets and liabilities at values different from the controlling party's reporting, which may confuse investors. However:

    (a) similar confusion may arise for an IFRS 3 BC—the values reported by the acquirer typically differ from the values reported by the acquiree;

    (b) such confusion would arise only if the controlling party and receiving entity both publish IFRS financial statements that are publicly available;

    (c) our research indicates that such situations are not common.[8]

46. Paragraphs 33–34 explain why the IASB decided the acquisition method results in more useful information than a form of book-value method when developing IFRS 3. We think it would be inappropriate to provide the receiving entity's primary users with less useful information just to avoid potential confusion for users who try to compare that information with information reported by other entities.

Staff initial view

47. Based on our analysis, we think the acquisition method meets NCS' information needs better than a book-value method. In particular we think the information needs of NCS for a BCUCC are similar to the information needs of an investor in an IFRS 3 BC.

[8] From the BCUCCs analysed in Agenda Paper 23A to the IASB's December 2019 meeting, we selected a sample of 50 BCUCCs by entities with publicly traded shares. The controlling party's shares were publicly traded for four of the 50 BCUCCs.

Potential investors

Observations/conclusions in the Discussion Paper

48. The IASB's preliminary view in the Discussion Paper was that a book-value method should be applied to BCUCCs that do not affect NCS. Paragraph 2.32 of the Discussion Paper says:

> …Feedback received from stakeholders in the project indicates that a book-value method is typically less costly to apply and would provide useful information:
>
> (a) to potential shareholders of the receiving [entity]. This is because a book-value method provides potential shareholders with similar information about the combined economic resources in all scenarios, regardless of whether a [BCUCC] is undertaken in preparation for a sale to potential shareholders and regardless of how the combination is legally structured…

Feedback

49. As noted in paragraph 25, almost all users we conducted outreach with were asked about specific scenarios. Almost all users agreed a book-value method should be applied to scenario 2, a BCUCC by a wholly-owned receiving entity in preparation for an initial public offering (IPO) (see Appendix C)—that is, the outcome of applying the IASB’s preliminary views. A few of these users said they would prefer applying a fresh start method[9] but acknowledged that method is rarely used and said they would prefer a book-value method rather than the acquisition method. A few other users said they would prefer applying the acquisition method.

50. In addition to the feedback from users who said a book-value method should be applied to all BCUCCs (see paragraph 28), users who said a book-value method should be applied to scenarios that do not affect NCS (scenarios 2 and 3[10]) said:

    (a) a book-value method would provide consistent book-value information for the combined group regardless of a BCUCC’s structure (some of these users);

    (b) if the acquisition method were allowed, entities could try to manipulate the fair values—some of these users were concerned that asset values could be overstated, and one user was concerned that asset values could be understated to reduce future depreciation expenses;

    (c) as a potential investor in an IPO, they assess the value of the entire group and are not interested in a BCUCC that happened before they invested (a few of these users); and

[9] A ‘fresh start’ method measures all of the combining entities’ assets and liabilities, including the receiving entity’s own assets and liabilities, at fair value.

[10] Scenario 3 was a BCUCC that does not affect NCS but the receiving entity has bank debt or bonds traded in a public market. Scenario 3 is reproduced in Appendix C and is discussed further when analysing the information needs of lenders and other creditors in paragraphs 62–64.

(d) they could work with either fresh-start fair value information or book-value information—their model uses many financial and non-financial inputs, and they would get comfort from the IPO registration process (one user).

51. The few users who said the acquisition method should be applied to scenario 2 said fair value information about the transferred business would be more useful than book-value information even though, applying the acquisition method, the receiving entity's assets and liabilities would remain at book value.

Analysis

52. Feedback confirms that the information provided by a book-value method could meet potential investors' information needs for scenario 2 for reasons considered by the IASB in developing its preliminary views.

53. Given feedback from a few users that would prefer a fresh start method in particular circumstances, we considered whether the IASB should consider requiring a fresh start method. A fresh start method would result in the receiving entity remeasuring assets and liabilities it already controls to fair value. This remeasurement may be inconsistent with requirements in other IFRS Accounting Standards, for example, increasing the carrying amounts of inventories may be inconsistent with IAS 2 *Inventories*. Given that the fresh start method (a) received little support during the consultation period and (b) could be inconsistent with requirements in other IFRS Accounting Standards, we have not considered it further in our analysis.

54. We next considered whether the acquisition method could meet potential investors' information needs for all BCUCCs—we think it could because:

(a) applying the IASB's preliminary views, potential investors will receive information provided by the acquisition method when a BCUCC affects NCS and information provided by a book-value method when a BCUCC does not affect NCS—that is, they will get different information for BCUCCs; and

(b) potential investors currently receive information provided by the acquisition method for all IFRS 3 BCs and the post-implementation review of IFRS 3 reported no concerns about the acquisition method not meeting their information needs (see Post-implementation Review of IFRS 3 *Business Combinations* Report and Feedback Statement).

Staff initial view

55. We think that information provided by either the acquisition method or a book-value method could meet potential investors' information needs.

56. As noted in paragraph 1, this paper considers only user information needs as part of reaching overall decisions on selecting the measurement method. We acknowledge that some other factors, for

example, the comparability of the information (Agenda Paper 23H) and structuring opportunities (Agenda Paper 23G), could affect potential investors' information needs. Agenda Papers 23B and 23C contain our initial views on selecting the measurement method considering all factors collectively.

Lenders and other creditors

Observations/conclusions in the Discussion Paper

57. The IASB's preliminary view in the Discussion Paper was that a book-value method should be applied to BCUCCs that do not affect NCS. Paragraph 2.32 of the Discussion Paper says:

> …Feedback received from stakeholders in the project indicates that a book-value method is typically less costly to apply and would provide useful information:
>
> …
>
> (b) to lenders and other creditors of the receiving [entity]. This is because their economic interest in the receiving [entity] is typically limited to receiving payments of principal and interest. Thus, lenders and other creditors need information about the receiving [entity]'s cash flows and debt commitments in order to assess the [entity's] ability to service its existing debt and to raise new debt. That information is largely unaffected by whether the acquisition method or a book-value method is used to account for a [BCUCC]. In addition, although information about fair values of particular assets received in such a combination can be useful to lenders and other creditors in some cases, the outcome of their analysis would not depend greatly on whether they receive that information.

Feedback

58. As noted in paragraph 25, almost all users we conducted outreach with were asked about specific scenarios. Most users agreed a book-value method should be applied to scenario 3, a BCUCC by a wholly-owned receiving entity which has bank debt or bonds traded in a public market (see Appendix C)—that is, the outcome of applying the IASB's preliminary views. Some users said the acquisition method should be applied because, similar to NCS, lenders and other creditors need information provided by the acquisition method.

59. The reasons given by users who agreed a book-value method should be applied are similar to those discussed in paragraphs 49 and 50.

60. Users who said the acquisition method should be applied provided the following main reasons:[11]

    (a) book-value information may suffice for simple investment-grade debt, but fair value information is necessary to assess recoverability of distressed or subordinated debt (some of these users); and

[11] Paragraphs 31 and 33 of Agenda Paper 23D of the IASB's December 2021 meeting list other less-frequently cited reasons.

(b) although lenders and other creditors' interests are typically limited to receiving payments of principal and interest, the equity in a business is the buffer available to repay the debt and accordingly fair value information is relevant when evaluating credit risk (a few of these users).

61. Most users who said the acquisition method should be applied to scenario 3 differentiated holders of publicly traded debt from holders of privately held debt—some said although private debtholders (for example, banks) might need information similar to a public debtholder, private debtholders can typically obtain information from the receiving entity and do not need to rely on financial statements to meet their information needs.

Analysis

62. Feedback confirms that in most cases the information provided by a book-value method could meet lenders and other creditors' information needs for scenario 3 for the reasons considered by the IASB in developing its preliminary views. We also considered:

(a) whether lenders and other creditors need the information provided by the acquisition method in some circumstances (paragraph 63); and

(b) whether the acquisition method could meet lenders and other creditors' information needs for all BCUCCs (paragraph 64).

63. Given feedback from some users that lenders and other creditors, particularly holders of publicly traded debt, would prefer fair value information in some circumstances we considered whether information provided by the acquisition method would meet their information needs better than information provided by a book-value method. Many of the users who said the acquisition method should be applied to scenario 3 did not specify why. We considered the main reasons given by users who did specify why (see paragraph 61) and we note that:

(a) although lenders and other creditors could find fair value information useful in some situations (for example, a distress situation), they want fair value information because of the specific situation and not specifically about the BCUCC—for example, we think they would find fair value information equally useful for all entities in distress, not just those that have recently undertaken a BCUCC;

(b) the acquisition method would provide fair value information for only the transferred—and not the combined—business; and

(c) the acquisition method would provide fair value information only at the transaction date, which might not be useful, for example, in fast-moving distress situations or if the debt becomes subsequently distressed.

64. We next considered whether the acquisition method could meet lenders and other creditors' information needs for all BCUCCs—we think it could because:

    (a) applying the IASB's preliminary views, lenders and other creditors will receive information provided by the acquisition method when a BCUCC affects NCS and information provided by a book-value method when a BCUCC does not affect NCS—that is, they will get different information for BCUCCs; and

    (b) lenders and other creditors currently receive information provided by the acquisition method for all IFRS 3 BCs and the post-implementation review of IFRS 3 reported no concerns about the acquisition method not meeting their information needs (see Post-implementation Review of IFRS 3 *Business Combinations* Report and Feedback Statement).

Staff initial view

65. On balance, we think the information provided by either the acquisition method or a book-value method could meet lenders and other creditors' information needs.

66. Whilst we acknowledge lenders and other creditors, particularly holders of publicly traded debt, would prefer information provided by the acquisition method in some circumstances, we think:

    (a) their information needs relate to the specific situation and not specifically to a BCUCC transaction, so applying the acquisition method to BCUCCs might not provide all of the information they may find useful; and

    (b) in most circumstances lenders and other creditors could work with the information provided by either method.

67. As noted in paragraph 1, this paper only considers user information needs as part of reaching overall decisions on selecting the measurement method. We acknowledge that some other factors, for example, the comparability of the information (Agenda Paper 23H) and structuring opportunities (Agenda Paper 23G), could affect lenders and other creditors' information needs. Agenda Paper 23B and 23C contain our initial views on selecting the measurement method considering all factors collectively.

Common information needs

68. Having analysed the information needs of different user groups separately, we now consider the composition and common information needs of users. Paragraph 1.8 of the *Conceptual Framework* says:

> Individual primary users have different, and possibly conflicting, information needs and desires. The [IASB], in developing Standards, will seek to provide the information set that will meet the needs of the maximum number of primary users…

Observations/conclusions in the Discussion Paper

69. The composition of users differs depending on whether the receiving entity has NCS. As discussed in paragraphs 7–9, the IASB:

    (a) concluded the composition and common information needs of users for BCUCCs that affect NCS are similar to those of users in an IFRS 3 BC; and

    (b) considered, but did not separately conclude on, the similarity of the composition and common information needs of users for BCUCCs that do not affect NCS to those of users in an IFRS 3 BC.

Feedback

70. Respondents provided the following feedback on common information needs:

    (a) a few respondents (who said a book-value method should be applied to all BCUCCs) said a book-value method would best meet information needs common to all shareholders, lenders and other creditors of the receiving entity, including the controlling party; and

    (b) a few respondents (who agreed that neither method should be applied to all BCUCCs) said the information needs of users are not the same for all BCUCCs so different measurement methods should apply in different circumstances.

Analysis

71. The information to be provided should consider the information needs of the different groups of users who must rely on the receiving entity's general purpose financial statements. We agree the composition—and therefore, the information needs—of users in a BCUCC could differ.

72. For a BCUCC that affects NCS, the information needs of NCS should be considered as part of the common information needs. We continue to agree with the IASB that the composition of users for such BCUCCs is similar to an IFRS 3 BC and the common information needs of users are similar to an IFRS 3 BC. Accordingly, we think the acquisition method meets those common information needs better than a book-value method.

73. For a BCUCC that does not affect NCS, only the information needs of potential investors, lenders and other creditors should be considered. We think the information provided by either the acquisition method or a book-value method could meet the common information needs of these users.

Staff initial view

74. We think the common information needs of users that must rely on the financial statements depends on the composition of users:

(a) for a BCUCC that affects NCS, the acquisition method meets those common information needs better than a book-value method; and

(b) for a BCUCC that does not affect NCS, the information provided by either the acquisition method or a book-value method could meet the common information needs of potential investors, lenders and other creditors.

Summary of staff initial views

75. Our initial views on user information needs are:

(a) the project should not address the controlling party's information needs; and

(b) the common information needs of users that must rely on the financial statements depends on the composition of users:

(i) for a BCUCC that affects NCS, the information provided by the acquisition method meets those common information needs better than a book-value method; and

(ii) for a BCUCC that does not affect NCS, the information provided by either the acquisition method or a book-value method could meet the common information needs of potential investors, lenders and other creditors.

Appendix A—Extracts from the Conceptual Framework

A1. The following extracts from the Conceptual Framework explain the information needs of users:

> 1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about:
>
> (a) buying, selling or holding equity and debt instruments;
>
> (b) providing or settling loans and other forms of credit; or
>
> (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.
>
> 1.3 The decisions described in paragraph 1.2 depend on the returns that existing and potential investors, lenders and other creditors expect, for example, dividends, principal and interest payments or market price increases. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and on their assessment of management's stewardship of the entity's economic resources. Existing and potential investors, lenders and other creditors need information to help them make those assessments.
>
> 1.5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.
>
> 2.6 Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.
>
> 6.32 Information provided by measuring assets and liabilities at fair value may have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows. These expectations are priced in a manner that reflects the current risk preferences of market participants. That information may also have confirmatory value by providing feedback about previous expectations.

Appendix B—Extracts from the Basis for Conclusions on IFRS 3

B1. The following extracts from the Basis for Conclusions on IFRS 3 explain the IASB's considerations in reaching the conclusions in IFRS 3:

> BC25 The acquisition method views a combination from the perspective of the acquirer—the entity that obtains control of the other combining businesses. The acquirer purchases or otherwise obtains control over net assets and recognises in its financial statements the assets acquired and liabilities assumed, including those not previously recognised by the acquiree. Consequently, users of financial statements are better able to assess the initial investments made and the subsequent performance of those investments and compare them with the performance of other entities. In addition, by initially recognising almost all of the assets acquired and liabilities assumed at their fair values, the acquisition method includes in the financial statements more information about the market's expectation of the value of the future cash flows associated with those assets and liabilities, which enhances the relevance of that information.
>
> BC37 Both boards[12] observed that an important part of decision-useful information is information about cash-generating abilities and cash flows generated. The IASB's *Framework for the Preparation and Presentation of Financial Statements*[13] says that 'The economic decisions that are taken by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation'…Neither the cash-generating abilities of the combined entity nor its future cash flows generally are affected by the method used to account for the combination. However, fair values reflect the expected cash flows associated with acquired assets and assumed liabilities. Because the pooling method records the net assets acquired at their carrying amounts rather than at their fair values, the information that the pooling method provides about the cash-generating abilities of those net assets is less useful than that provided by the acquisition method.
>
> BC38 Both boards also concluded that the information provided by the pooling method is less relevant because it has less predictive value and feedback value than the information that is provided by other methods. It is also less complete because it does not reflect assets acquired or liabilities assumed that were not included in the pre-combination financial statements of the combining entities. The pooling method also provides a less faithful representation of the combined entity's performance in periods after the combination. For example, by recording assets and liabilities at the carrying amounts of predecessor entities, post-combination revenues may be overstated (and expenses understated) as the result of embedded gains that were generated by predecessor entities but not recognised by them.

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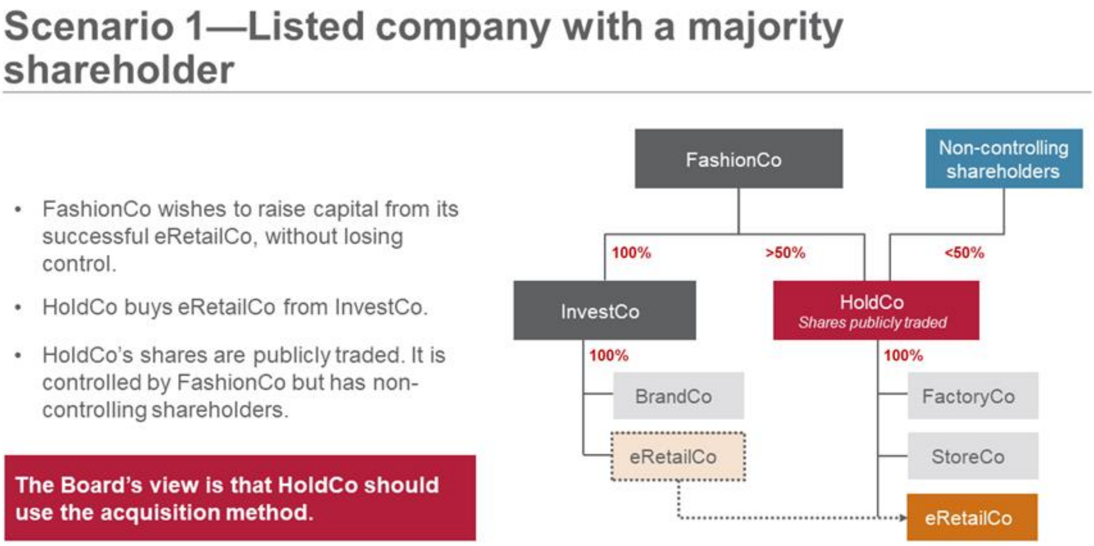
[12] 'The boards' refers to the IASB and the US Financial Accounting Standards Board (FASB). IFRS 3 *Business Combinations* (as revised in 2008) was the result of a joint project between the IASB and FASB.

[13] The IASC's *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001 and in effect when the Standard was developed.

Appendix C—Scenarios discussed with users

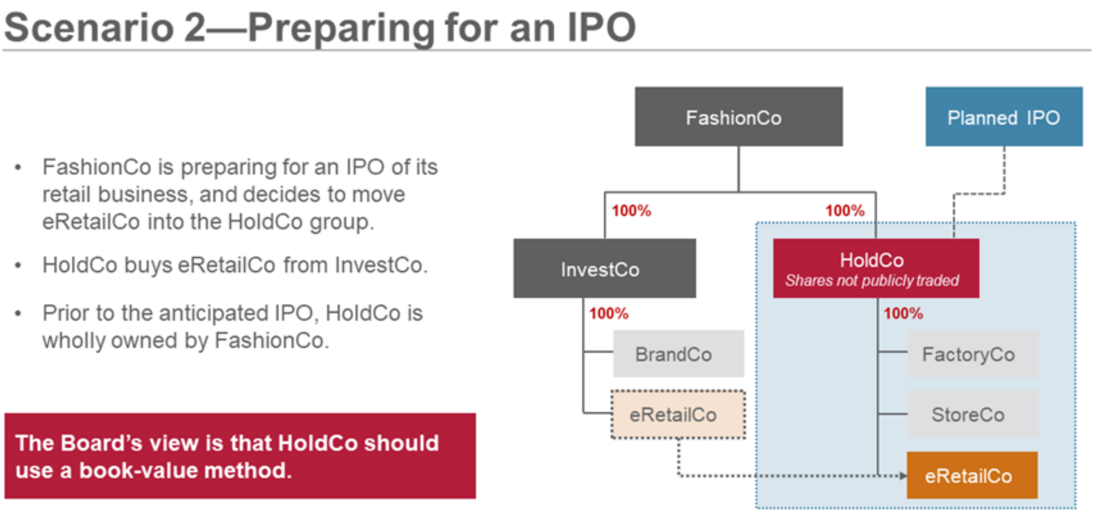
Scenario 1

C1. Applying the IASB's preliminary views, Holdco (the receiving entity) would apply the acquisition method to scenario 1 because Holdco's NCS are affected and its shares are publicly traded. We asked users whether the acquisition method would provide useful information to Holdco's NCS.



Scenario 2

C2. Applying the IASB's preliminary views, Holdco (the receiving entity) would apply a book-value method to scenario 2 because Holdco does not have any affected NCS. We asked users whether a book-value method would provide useful information to HoldCo's potential shareholders.



Scenario 3

C3. Applying the IASB's preliminary views, HoldCo (the receiving entity) would apply a book-value method to scenario 3 because Holdco does not have any affected NCS. We asked users whether a book-value method would provide useful information to HoldCo's debt holders (that is, holders of the bank loan and publicly traded debt).